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**COMMITTEE ON GOVERNMENT REFORM**  
**UNITED STATES HOUSE OF REPRESENTATIVES**  
**MAY 30, 2006**

## **Analysis**

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# **Estimated Estate Tax Savings of Oil Company CEOs**

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At the request of Rep. Henry A. Waxman, this analysis estimates the impact that a permanent repeal of the estate tax would have on the tax liabilities of six oil company executives: Lee Raymond, the former ExxonMobil CEO, and the current CEOs of the five largest U.S. oil companies. The analysis finds that these individuals are likely to receive a windfall of up to \$211 million if the estate tax is permanently repealed. Mr. Raymond alone could receive a tax break worth over \$160 million.

## **Background**

The estate tax is the most progressive American tax. In 2001, the tax applied only to estates worth more than \$1 million. The top 5% of taxpayers pay almost 99% of estate taxes, and the top one-tenth of the top 1% of taxpayers pay more than 33%.<sup>i</sup> The vast majority of Americans are exempt from the estate tax.

President Bush's 2001 tax cut bill included a temporary phase-out of the estate tax. Under this law, the estate tax is reduced gradually until 2010, when the estate tax is completely repealed for one year. Commencing in 2011, a sunset provision in the tax cut legislation causes the estate tax to be reinstated, based on the pre-2001 law, on January 1, 2011.<sup>ii</sup>

In April 2005, the House passed legislation (H.R. 8) to make the repeal of the estate tax permanent by removing the sunset provision.<sup>iii</sup> The Senate is expected to take up this legislation soon. According to the Center on Budget and Policy Priorities, permanent repeal of the estate tax would cost the government \$1 trillion over the first ten years.<sup>iv</sup>

## **Purpose and Methodology**

To illustrate the impact of permanent repeal of the estate tax, Rep. Waxman asked the Special Investigations Division to investigate the impact that a repeal would have on six wealthy oil company executives: former ExxonMobil CEO Lee Raymond, current ExxonMobil CEO Rex Tillerson, ConocoPhillips CEO James Mulva, Chevron CEO David O'Reilly, Valero Energy CEO William R. Klesse, and Marathon Oil CEO Clarence Cazalot Jr. This paper presents the results of the analysis.

The findings of this analysis represent a snapshot of the value of the estate tax repeal for oil company CEOs based on the best available information. In the case of the five current CEOs, the analysis assumes that their current net worth is equivalent to the value of their company stock holdings as reported in SEC filings. This is a conservative assumption, since it omits the value of

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any other property that these highly compensated executives may possess. In the case of former ExxonMobil CEO Lee Raymond, the analysis adds \$400 million to the value of his stock in ExxonMobil. This is the estimated value of his retirement package from ExxonMobil.<sup>v</sup>

The analysis assumes that each CEO's current stock holdings in his company will have the same value upon death as the holdings currently have. This is also a conservative assumption, because oil company stocks have historically risen in value faster than the rate of inflation.

To estimate the impact of repeal of the estate tax, the analysis uses a model provided by Citizens for Tax Justice. This model applies the estate tax rate schedule that would (absent congressional action) be in effect after 2010 to the individual's estimated estate.<sup>vi</sup> The CTJ calculations take into account the value of the individual's estate as well as estimated expenses, bequests, and credits to estimate the amount of the estate tax that would be paid by the heirs of the six executives.<sup>vii</sup>

The estimates of tax savings in this analysis should be considered educated approximations of the actual tax benefits that the six oil industry executives would receive. One source of uncertainty in these estimates is that it is impossible to know exactly how each person will structure his estate. Another source of uncertainty is that it is impossible to know exactly what assets each individual will have at death.

## Findings

The six oil company executives would reap large benefits from the repeal of the estate tax. Combined, the savings for the six are estimated to be \$211 million. Each of the CEOs would save at least \$3 million. Mr. Raymond, who was the CEO of ExxonMobil from 1993 through the end of 2005, would receive the greatest savings, \$164 million.

### Estimated Savings for Oil Company CEOs from Repeal of the Estate Tax<sup>viii</sup> (\$ — millions)

Name	Company	Net Worth of Estate <sup>ix</sup>	Tax Savings from Repeal of Estate Tax <sup>x</sup>
Lee R. Raymond	ExxonMobil (Retired)	\$633 million	\$164 million
Rex W. Tillerson	ExxonMobil	\$36 million	\$12 million
James J. Mulva	ConocoPhillips	\$36 million	\$12 million
William R. Klesse	Valero Energy	\$35 million	\$11 million
Clarence P. Cazalot Jr	Marathon Oil	\$28 million	\$9 million
David J. O'Reilly	Chevron Corp.	\$10 million	\$3 million
<b>Total</b>		<b>\$778 million</b>	<b>\$211 million</b>

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### REFERENCES

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<sup>i</sup> Leonard E. Burnam, et al, *Options to Reform the Estate Tax*, Urban-Brookings Tax Policy Center (Mar. 2005).

<sup>ii</sup> Pub. L. 107-16 (2001).

<sup>iii</sup> Congressional Research Service, *Estate Tax Legislation in the 109<sup>th</sup> Congress* (Mar. 15, 2005) (Order Code RL32818).

<sup>iv</sup> Center on Budget and Policy Priorities, *The Estate Tax: Myths and Realities* (revised Apr. 28, 2006). The figure includes \$776 billion in lost revenue and \$213 billion in higher interest costs over fiscal years 2012 to 2021.

<sup>v</sup> *Oil: Exxon Chairman's \$400 Million Parachute*, ABC News (Apr. 14, 2006).

<sup>vi</sup> Citizens for Tax Justice, *Oil Company Executives' Estate Tax* (May 2006).

<sup>vii</sup> See, e.g., Public Citizen, *Spending Millions to Save Billions* (Apr. 2006),

<sup>viii</sup> Citizens for Tax Justice, *Oil Company Executives' Estate Tax* (May 2006). The CTJ methodology includes factors, such as estimated expenses, bequests, and credits, that were not included in previous estate tax analyses conducted by the minority staff. In all cases, the calculations of estate tax savings represent estimates based on the best publicly available information at the time of publication.

<sup>ix</sup> In May 2006, Mr. Raymond held 3,640,879 shares of ExxonMobil (XOM) stock; Mr. Tillerson held 564,558 shares of ExxonMobil Stock (XOM); Mr. Mulva held 527,762 shares of ConocoPhillips (COP) stock; Mr. Klesse held 528,820 shares of Valero Energy stock (VLO); Mr. Cazalot owned 335,248 shares of Marathon Oil (MRO) stock; and Mr. O'Reilly held 152,494 shares of Chevron (CVX) stock.

<sup>x</sup> These estimates assume that if the estate tax is reinstated, the state estate tax credit would also be reinstated.